



Internal Audit Report

**Continuous Monitoring
July 2003**



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July 17, 2003

Fulton Brock, Chairman, Board of Supervisors
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2002-03 proactive monitoring of certain financial transactions within the County's financial system. This work was performed in accordance with the annual audit plan that was approved by the Board of Supervisors.

Three areas were considered for monitoring; the use of miscellaneous vendor transactions, purchase card controls, and credits issued via County merchant credit card terminals. One notable issue is that 31 purchase cards are currently held by non-employees.

Within this report you will find an executive summary, specific information on the areas reviewed, and Materials Management's response to our recommendations. We have reviewed this information with the Director and appreciate the excellent cooperation provided by all County department involved. If you have questions, or wish to discuss items presented in this report, please contact Joe Seratte at 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

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Refunds made to individuals or businesses that do not provide goods or services on a regular basis present an elevated risk to the County. We review these transactions for repeated, high-dollar, or unusual refund payments. Our review for FY 2003 noted no exceptions.

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Processing credits (refunds) transactions to citizens' credit cards presents an elevated risk to the County. We review these transactions for repeating, high-dollar, or unusual activity. Credit card refund transactions reviewed during the FY 2003 were consistent with the County's business cycle. No reportable exceptions were found during our review.

Introduction

Background

FY 2003 is the second year that the Internal Audit included Continuous Monitoring in the annual audit plan. Continuous Monitoring enables us to look at issues in the County on a more global level while focusing our efforts on County financial transactions as a whole, without performing an audit of the specific department.

Continuous monitoring began in response to a January 2000 audit of the County's financial system. The audit, performed in conjunction with Deloitte and Touche, LLP, identified some areas within the County open for potential abuse. As a result, Internal Audit began monitoring these areas for large data variances or inconsistencies.

The purpose of continuous monitoring is to identify inaccurate or inappropriate transactions. Internal Audit developed trend data for comparison purposes. This was accomplished by collecting and analyzing data for a 12-month period, and then identifying any large variances. Identified variances are investigated at the department level to determine cause and ultimately the effect.

Internal Audit uses a powerful software program called Audit Command Language (ACL) that analyzes transactions and identifies problems. ACL allows 100 percent of the transactions, for a given period, to be reviewed which is necessary for an organization of the County's size.

During FY 2002 Internal Audit considered three areas for continuous monitoring:

- Procurement Cards (P-cards)
- Miscellaneous vendor refunds (MREFUNDS)
- Merchant terminal credit transactions

Scope and Methodology

The objectives of continuous monitoring were to:

- Ensure appropriate internal controls are established to ensure P-cards are used only for authorized purposes
- Ensure that only current employees have active P-card status, through verification of active P-card holders against County personnel records
- Identify potential inappropriate P-card transactions through reviews of P-card activity
- Identify inappropriately or excessive use of the MREFUND vendor code to pay vendors
- Identify inappropriate or fictitious credits via County established merchant terminals

This audit was performed in accordance with generally accepted government auditing standards.

Issue 1 Procurement Cards

Summary

Exceptions to County policy resulted in procurement cards being retained by non-County employees, as well as two questionable transactions. Materials Management should work with County Counsel concerning non-employee use of cards and review the transactions in question.

Procurement Card Requirements

County Procurement Card (P-card) policy applies to all departments and employees of the County and makes departments responsible for cards in use by department employees. P-card transactions must be made in accordance with the County Procurement Code. Conditions for use include:

- Purchase cannot exceed the authorized single purchase limit and cannot be split to circumvent the single transaction limit
- Cash advances may not be made on the procurement card
- P-cards are issued to individual employees and must to be used only by that individual
- Department must to collect and destroy cards for terminating or transferring employees and provide a memo to the Card Administrator verifying destruction.

Procurement Card Testing

To ensure that only current, active employees are authorized to use a P-card, we used Computer Assisted Audit Techniques to run the following tests.

We compared the 1,294 cardholders on the authorized P-card list to the approximately 15,000 employees in the County and hospital payroll databases. We found several “non-matches” and compared these exceptions to a database of employees terminated during the past three years. We further investigated the exceptions through Materials Management, Human Resources, and EAGLS transaction records to quantify any fiscal impact caused by the exceptions.

Non-employee Use of P-cards

Non-compliance with the County’s Procurement card policy has resulted in 31 procurement cards issued to non-county employees, that have been used in purchases totaling \$2,152 during the 2002 calendar year. The non-county employees are volunteer members of the Sheriff’s Posse and were active employees when issued the Procurement cards. However, the cards were not collected after termination.

The final transaction on one non-County employee P-card was the purchase of \$126 in food and beverages at a local steak house. The appropriateness of this transaction could not be verified, but according to the Sheriff’s Office, the issue was researched and handled internally.

During the FY 2000 audit of Materials Management, eight P-cards cards found to be used by non-County employees. At that time, the issue was to be corrected by collecting the cards. Recently Materials Management indicated that consideration is being given to changing the P-card policy to include non-county employees as authorized P-cardholders. However, to date, the policy prohibits P-car use by non-employees.

Active Card Numbers

Six employees, no longer employed by the County, have P-card numbers still listed as active by Bank of America. There has been no activity on the cards since the employees' termination dates, which range as far back as February 1999. Materials Management records show the accounts were closed at the time of termination, but Bank of America apparently did not receive notification to cancel the cards. Although the terminated employees did not physically possess the cards, the active card numbers could still be used to make purchases. The cards have since been cancelled.

Cash Advance via Purchase Cards

A cardholder in the Office of the Medical Examiner completed one cash advance transaction for \$2,400 to make fiscal year-end purchases. Materials Management approved the transaction and changed the cardholder's limits on a one-time basis to allow the advance. Cash advances are prohibited by policy. In addition, the transaction may have been completed outside of normal procurement rules.

Recommendation

Materials Management should:

- A. Review the County's Procurement policies with County Counsel, OMB, and DOF, to determine the risks associated with non-employee use of Procurement
- B. Review unauthorized P-card transactions to identify and recover any non-compliance purchases made by either county or non-county employees
- C. Restrict department usage of P-card cash advances options.

Issue 2 Miscellaneous Vendor Refunds

Summary

Refunds made to individuals or businesses that do not provide goods or services on a regular basis present an elevated risk to the County. We review these transactions for repeated, high-dollar, or unusual refund payments. Our review for FY 2003 noted no exceptions.

MRefunds

Miscellaneous vendor refunds (MREFUND vendor code) are used for one-time payments to individuals or businesses that do not provide goods or services to the County on a regular basis. Because this code could potentially be used to bypass controls and procedures established for setting up new vendors, data analysis was performed to determine whether:

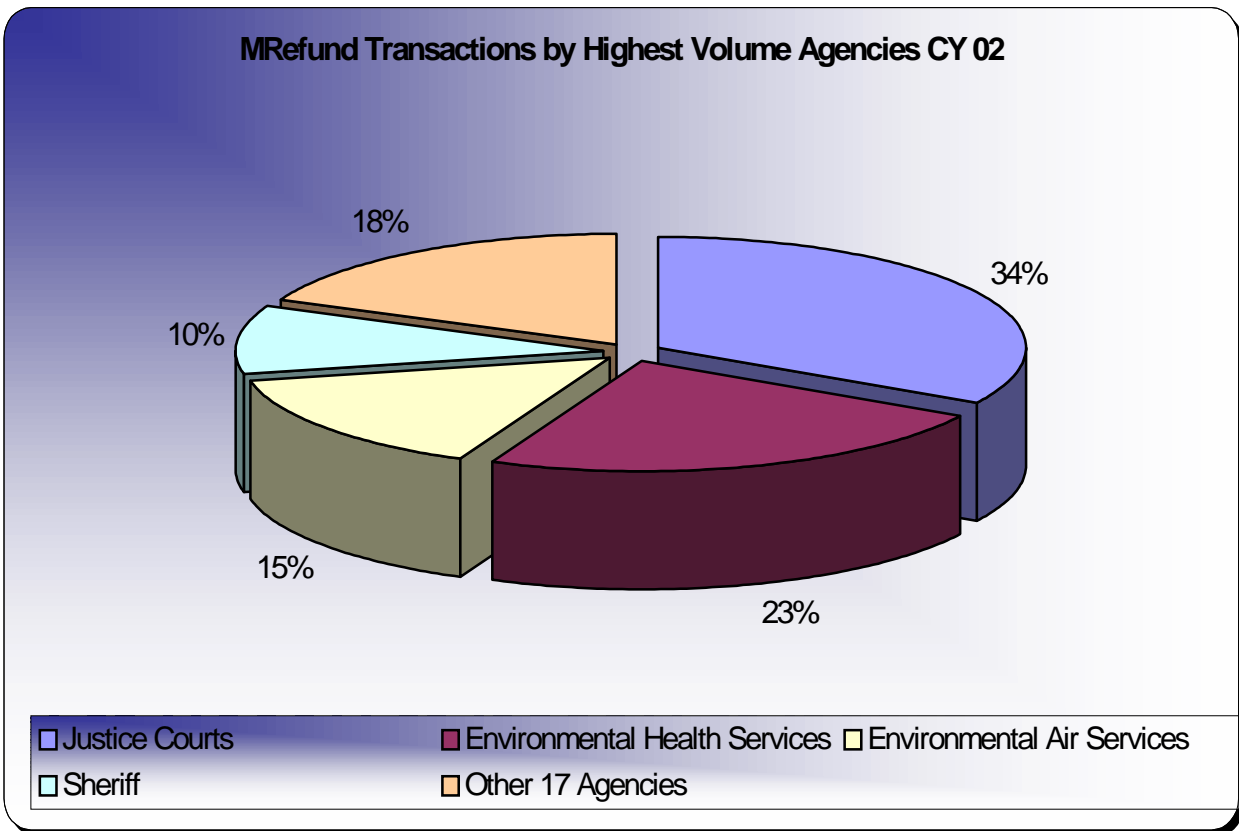
- The MREFUND vendor code was repeatedly used for the same vendor
- The MREFUND vendor code was used for a large number of high dollar transactions
- If any a department or agency was inappropriately or excessively using the MREFUND vendor code.

Analysis Results

During 2002 the MREFUND vendor code was not repeatedly used for the same vendor or used for a large number of high dollar transactions. This practice indicates that departments are following procedures for setting up new vendors. The chart below lists the top five agencies and the number of MREFUND transactions for calendar year 2001 and 2002.

AGENCY	CY 2002 MREFUND TRANSACTIONS	CY 2001 MREFUND TRANSACTIONS	CY 2002 VS. CY 2001
Justice Courts	566	460	+ 106
Environmental Health Services	331	616	- 285
Environmental Air Services	215	197	+ 18
Sheriff	115	5	+ 110
Planning and Development	46	75	- 29

While some agencies used the MREFUND vendor code more frequently than other agencies, we determined that the nature of their business would require more frequent use of the one-time transaction code. An example is the reimbursement of an individual for an overpayment of a licensing fee.



Recommendation

None, for informational purposes only.

Issue 3 Credit Cards

Summary

Processing credits (refunds) transactions to citizens' credit cards presents an elevated risk to the County. We review these transactions for repeating, high-dollar, or unusual activity. Credit card refund transactions reviewed during the FY 2003 were consistent with the County's business cycle. No reportable exceptions were found during our review.

Background

Many County agencies or departments that receive payments from citizens offer the public the convenience of credit card or debt card payment. Continuous monitoring of these transactions allows Internal Audit to investigate transactions that appear unusual or inappropriate. We used audit software to identify credits without offsetting debits, which enabled us to determine the validity of issued credits and to quickly identify negative trends.

During 2001 the County began using Paymentech, LLC. for departments' Credit and Debit card acceptance and processing needs. Paymentech is able to process American Express, Visa, MasterCard, Discover, and bank debit card transactions. Transactions are deposited directly into the County's Bank One account. The following County departments are currently using Paymentech to process credit card transactions:

- Parks and Recreation
- Animal Control
- Justice Courts
- Clerk of the Court
- Recorder's Office
- Library District
- Health Services
- Treasurer's Office

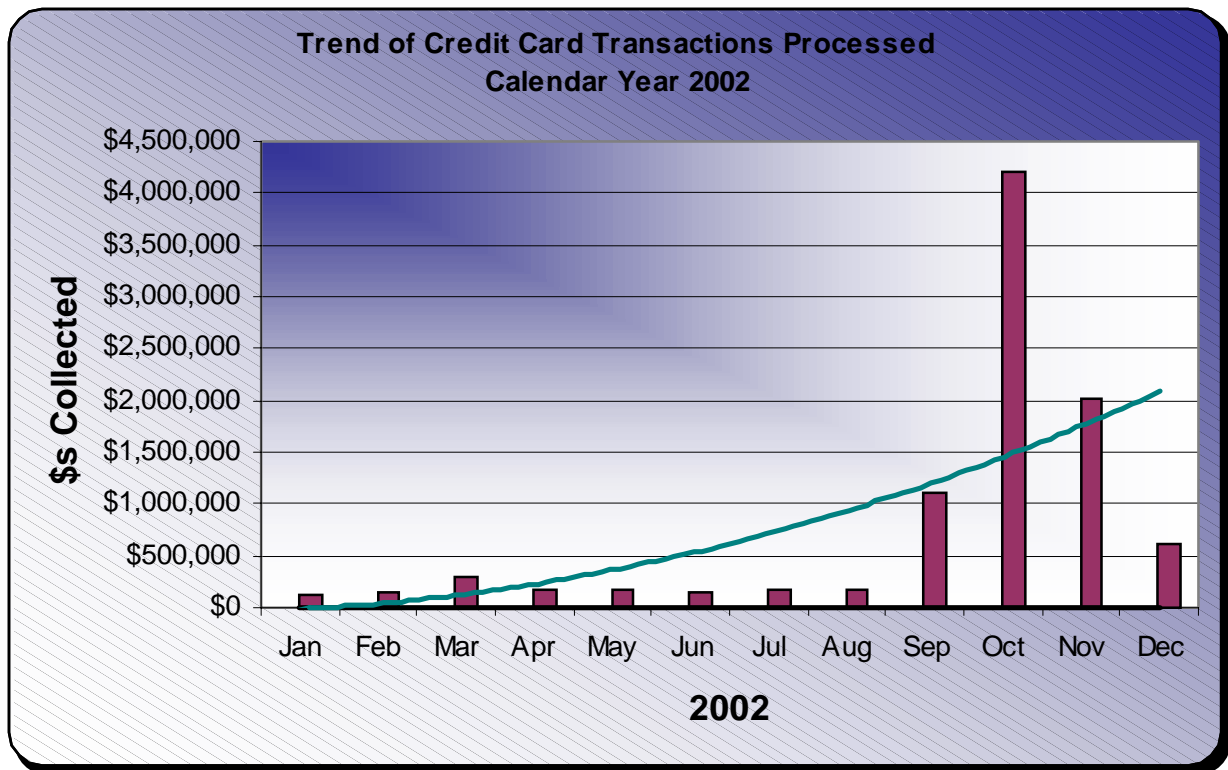
Transaction Monitoring

To determine the effectiveness of controls, we reviewed all credit transactions to ensure the activity was appropriate. Our testing of credits and charge backs found no exceptions. Paymentech offers an online reporting service that provides timely access to credit card account and transaction information. The Online reporting module offers a variety of account management tools that include account reconciliation, reporting, research, auditing, and trend analysis.

During our review we found that none of the County's key offices have access to the electronic merchant data, and that electronic merchant transactions are not monitored for trends. Although we found no irregular transactions this year, this indicates that monitoring by an independent department, such as Internal Audit, is an appropriate control over credit card transactions.

The following graph illustrates the trend of electronic merchant transactions during 2002. Fluctuations in volume were consistent with the County's business cycle and the increase in

County departments utilizing the service to allow customers to pay for services. The large number of transaction occurring in the September – November time frame is attributed to property tax payments made via credit cards.



Recommendation

None, for informational purposes only.

Department Response

**AUDIT RESPONSE – PROCUREMENT CARDS
MATERIALS MANAGEMENT
JULY 9, 2003**

Issue #1:

Non – employee Use of Procurement cards (Pcards) [Recommendation A]

Response: Concur

The current copy of the County's Procurement card Policy allows for non-county employees to utilize cards. "Designated individual" was the descriptive phrase replacing "employee." These include Maricopa County Sheriff Deputies and Posse members. Posse members vary in status regarding *sworn officer* and Deputy classification. Employees of the Sheriff's office supervise these cardholders. The Procurement Card Monitor, in cooperation with the County's Sheriff Department, may audit non-employee cardholders' through their Supervisors (those monitoring card activity) to ensure County employee status. Communication will include representatives from OMB and DOF.

Target Completion Date: 09/30/03

Benefits/Cost: Clarification of "non-employee" status and verification of applied controls.

Issue #2:

Review unauthorized Pcard transactions. [Recommendation B]

Response: Concur

Further communication with the County Sheriff finance liaison indicates that a Deputy overseeing the Posse member authorized the food purchase. Some Deputies and some Posse members have purchasing cards to purchase food for search and rescue mission teams. This was the case for the mentioned transaction. *Search and Rescue* mission standards were applied regarding the food appropriateness. As recommended, additional dialog can be initiated to verify that transactions reflecting similar characteristics as the above referenced example are in compliance with CAPA and/or food policies.

Target Completion Date: In place and continued monitoring

Benefits/Cost: Monitoring reports are one set of controls utilized to provide the using department's management and Materials Management with compliance status information regarding accuracy and accountability of cardholder activity.

Issue #3:

Cash Advance via Pcards [Recommendation C]

Response: Concur

The Procurement Card Policy answers the question "Can the Purchase/Commercial Card be used to acquire cash advances?" with a simple response. The Reponses is "no." However, this is an electronic County restriction currently placed on all cards to prevent cash advances without pre-approval rather than a blanket policy restriction. This specified instance is the only time approval was granted for a cash advance. The exception's justification was a cost savings purchase and fiscal year end deadline concern. This action approved by the former Pcard and Contract Monitor Manager. The cash advance County code restriction will continue to be enforced.

Target Completion Date: Completed


Benefits/Cost: Continued utilization of electronic controls regarding pcard use reduces the risk of non-compliance.

Approved By :



Department Head/Elected Official

7/9/03
Date



Chief Officer

7/10/03
Date

 for DRS

County Administrative Officer

7-11-03
Date